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On the Volatility Spillover between Islamic and conventional stock markets: A Quantile Regression analysis

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Highlights

- We aim to investigate the degree and structure of interdependencies between conventional and Islamic stock markets ;
- We adopt a methodology characterized by its suitability for non-standard shaped distributions ;
- It has been found that Islamic stock markets are not totally immune to the global financial crisis ;
- A very strong interdependence is sensed from the conventional stock markets to the Islamic markets ;
- Islamic finance industry does not seem able to provide cushion against economic and financial shocks that affect conventional markets.

Abstract

This paper aims at analyzing the degree and structure of interdependencies in terms of volatility (transmission, contagion) between Islamic and conventional stock markets on calm periods and at times of financial fragility and crisis. We focused on the recent financial instability periods and used the Quantile Regression-based GARCH model. Main results lead to very interesting conclusions. First, it has been found that Islamic stock markets are not totally immune to the global financial crisis. Second, a very strong interdependence is sensed from the conventional to the Islamic stock markets, especially, from the conventional developed markets to the Islamic Emerging and Arab markets and to the Islamic developed markets. Finally, it has been proved that the interdependencies from conventional to Islamic markets are propagated between Islamic markets. Our findings suggest that the Islamic finance industry does not seem able to provide cushion against economic and financial shocks that affect conventional markets.

Keywords: Quantile Regression; Financial fragility; Subprime crisis; Islamic stock markets; conventional stock markets.

JEL classification: F15; C32; C58; G1.

Abstract

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